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Secretary of State	From:	Mr A Stott BA BDB
	Date:	17 June 1994
Parliamentary Secretary (Lords)	cc:	Mr Spurr PS/MoS
		Mr Higlett PS/PSC (WH)
		Ms Nicholas PS/PSC(AB)
		Ms Todd PS/Perm Sec
		Mr Birch SSPG
		Mr Gilmore RMPG
		Mr Bichard BA
		Mr Tross PFD
		Mr Walmsley A
		Mr Riggs BA
		Ms Cleveland BA
		Mr Lord BA Security
		Mr Groombridge A6
		Mr Rendall FSB
		Mrs West A6A
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		Mrs Dugdale BDB

Copies
① Judith a then file 18A
② Nick, Gareth a then file c28.

BA/POCL BENEFIT PAYMENT PROJECT

Issue

1. This submission answers questions posed about the BA/POCL recommendations and subsequent work.

Timing

2. To S of S for information. To PS(L) as background for a meeting with officials on 20 June: a suggested agenda for this is attached.

Summary

3. The attached paper is a report of progress on BA/POCL and addresses specific questions asked prior to and following the meeting at Number 10 on 26 May. You have seen in a separate submission the draft GEN 34 paper which addresses issues connected with smart cards.

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A C STOTT
Business Development Branch

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SUGGESTED AGENDA FOR MEETING ON 20 JUNE

1. Relationship between Benefit Payment Project and other initiatives:

   - information system strategy
   - programme accounting strategy
   - security strategy

2. Current position

   - Private Finance
   - BA/POCL framework

3. Next steps

   - procurement
   - detailed specification
   - feeder systems
   - piloting

4. Other issues

   - GEN 34/Smart Cards
   - PO Review and Green Paper
   - links to National Lottery

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BA/POCL BENEFIT PAYMENT PROJECT

1. This paper reports progress on the BA/POCL project and sets out the next steps; it also addresses specific points on which Ministers asked for further information.

Progress on project

2. In the time since the feasibility study report was produced, and pending approval to proceed, work has proceeded on a number of fronts.

(1) On the technical side, more detailed work has been done on the design of the system. Further analysis has been undertaken of the issues surrounding the type of card, the possible migration strategy and the procurement and piloting aspects.

(2) Officials have had discussions with POCL and the Private Finance Unit in Treasury which have led all parties to conclude that the BA/POCL project would qualify as a Private Finance Initiative and that there are positive advantages in pursuing this course. An outline of the procurement process and timetable has been produced (see below).

(3) Exploratory talks have also been held, on a without prejudice basis, with private sector companies in the financial, IT and consultancy markets. These confirm that the offer of a private finance opportunity would attract considerable interest from industry and that there are several potential consortia who could compete for the business.

(4) A small team has been established in Benefits

Agency Business Development Branch to take the project forward in conjunction with the Post Office and to ensure that there are appropriate links with tactical projects such as ALERT and with the development of the feeder links from existing benefit payment systems and the adjustments necessary for current clerical and other procedures.

(5) The team has contributed to the work on the Post Office Green Paper and on GEN34's consideration of a Government smartcard.

Next steps

3. A timetable for the procurement action has been discussed with POCL, the Treasury, DTI and the Private Finance Executive. Assuming that the GEN34 work does not lead to a hold being placed on further public steps on the methods of payment improvement project (and the note of the Prime Minister's meeting did not suggest that it would) we would proceed as follows:

June 1994	Continue discussion with Private Finance Executive and potential suppliers on the shape of the package and the procurement route.
late June 1994	Issue Prior Information Notice in the European Journal (subject to legal advice and Ministerial approval). This will formally announce the possibility of the procurement and allow us to release detailed information about our requirement to potential suppliers. (To do so before starting the formal process could lead to some suppliers claiming to be

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disadvantaged at a later stage.)

end July 1994	Detailed report on the feasibility of private sector finance and on the preferred procurement method. This will be the result of the "exploring the possibility of private finance" in the Secretary of State's speech and be the formal basis for approval to proceed to the next stage.
August	Decision to proceed with procurement under private finance rules; EC advertisement issued.
end September	Formal specification of services required issued to interested suppliers.
mid November	Suppliers submit proposals
mid December	BA and POCL select a shortlist, subject to endorsement by Ministers, of two or three suppliers for detailed discussion and evaluation.

4. The timetable for action after shortlisting is still the subject of discussion with the Private Finance Executive and with POCL. The PFE consider that it would be possible to award a contract by the Summer; POCL consider that a contract could not be awarded until mid 1996. Our own assessment, based on major procurements conducted in the past by this Department, is that it would be reasonable to aim to let the contract in around October 1995.

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5. In parallel with the procurement work stream the BA will need to invest in the feeder systems which will provide the data that the supplier will need to authorise payments. This means bringing forward part of the Customer Accounting and Payment System (CAPS) which already features in the BA's own Information Systems strategy. We are seeking to identify funding to allow work to be done on this system during the current financial year.

Migration

6. Ministers asked how we would migrate from the ALERT system in London to a card payment system nationally, and whether time could be saved by proceeding directly to a card system without ALERT. The BA/POCL report envisaged three levels of improvement to the payment system:

(1) ALERT - controlling order books by a bar code on the cover. This is highly effective against the most common type of fraud, fraudulent encashment of an order book which has been reported lost or stolen or which has been recalled by the BA. ALERT2 is targeted at areas where there is known to be an above average propensity to order book fraud.

(2) Option A - using bar codes on order book foils to track and validate individual payments, and to reconcile payments. In addition to the benefits of ALERT it would effective against other forms of order book tampering and provide much improved accounting information.

(3) Option B - replacing order books with a payment card held by the customer, with individual payments being transmitted electronically to Post

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Offices. In addition to the same fraud savings as Option A, it enables substantial administrative savings (indeed if girocheques are also paid by this method the Option is cost effective on administrative savings alone).

7. Although there is some symbiosis between ALERT and the BA/POCL full system the projects are complementary. In particular:

(1) ALERT, Option A and Option B all require similar equipment (PCs and cabling for example) in Post Offices; most of the equipment specified for ALERT can be re-used, and we are putting in place the commercial agreements which will allow that to be done.

(2) The extension of ALERT is planned to be completed by March 1995 but in any event does not affect the timetable for the delivery of the full system; and on current plans it is cost-justified by the fraud savings it could achieve before the full system is available and which we could not achieve any other way.

(3) because ALERT and Option A/Option B functionality can run on the same equipment there should be no migration issues when a London post office already on ALERT switches to the full system; indeed there will probably be a phase of parallel running for at least 20 weeks while customers are converted to card payment as their order books become exhausted.

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8. A fuller paper on migration is at Annex A. Ministers may wish to note the key points:

(1) Option A (fully bar coded order books) is difficult to package for private finance. In addition practical tests of bar coding of order book foils have identified production problems which may entail additional cost to overcome.

(2) Conversely there is substantial private sector expertise in analogous systems to Option B, and this is likely to allow the timetable to be accelerated and obviate the need for the interim Option A phase.

(3) Option B does assume that a plastic payment card is acceptable to customers. Initial reaction to the Secretary of State's announcement has been largely favourable but there will be some customer resistance and time needed to mount an effective education and marketing strategy.

9. Ministers asked whether the 3 year rollout envisaged in the BA/POCL report could be achieved more quickly. Annex A attached analyses the issues and concludes that it might be possible for a supplier to shorten this period; and we could create commercial incentives for the supplier to do so. However it is notable that the National Lottery planned rollout to post offices, with which comparisons have been drawn, is neither as extensive or as functional as initial reports indicated.

10. Our current timetable envisages the chosen supplier being selected after trials (see below) by October 1995 and national rollout commencing in Spring 1996. The scale and complexity of physical implementation

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(over 48,000 terminals in around 19,000 sites and the data records of 23 million customers to be loaded on the database) is such that a significantly shorter rollout is judged unlikely. All other things being equal and subject to price, completion by mid/late 1998 might be feasible.

Pilots

11. PS(L) asked about the purpose of pilots (or trials) and whether these might not be eliminated in the interests of speed.

12. It would be usual practice to conduct pilots in such a large scale and innovative project primarily, but not exclusively, to test that the system works before withdrawing the existing payment facility. In addition there is a need to test customer reaction to a payment card to help devise appropriate education and marketing strategies as well as inform roll out decisions. The BA/POCL report recommended such tests but with the advent of private sector involvement, the nature of the pilots may now change in one fundamental respect. We are considering using pilots to evaluate the short listed suppliers and help inform the decision on the final award of contract. Further work is needed to test supplier reaction to this concept and to examine other evaluation options.

13. Annex B attached sets out a summary of our current view of the purpose and the arrangements for conducting pilots.

Accounting Issues

14. Although fraud, along with the need to reduce administration costs, are major drivers behind this

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project, the inadequacy of our accounting arrangements is an important element. A summary of the programme accounting issues is attached at annex C.

15. Our current systems also make no provision for customer accounting i.e. a single record of all the benefits in payment to, and deductions being recovered from, one customer. The availability of such a record, and the capacity to issue the equivalent of a bank statement, would not only improve customer service but would also enable BA to cross match records to identify dubious claims and incompatible benefit payments.

Information Flows

16. PS(L) had also asked about the information flows inherent in the recommended payment system. The charts at annex D describe the overall benefit process flow and the high level information flows in the payment process. The former demonstrates how BA/POCL and CAPS fit into the overall BA IS/IT strategy while the latter shows where the public/private sector divide is currently seen as standing. We stand ready to fill in the detail at the meeting on 20 June.

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ANNEX A

Briefing on Migration Issues

BA/POCL Report

1. The BA/POCL report recommended a phased implementation of an enhanced method of payment, progressing from Alert (negative authorisation of bar-coded order book covers) through option A (positive authorisation of bar-coded order book foils) to option B (plastic payment cards).

2. It was suggested that option A could be piloted on the Alert platform in London offices as soon as equipment and software was available, and concurrently with the roll out of Alert to 1800 post offices in London. Option A would then be rolled out nationally from 1995-96.

3. Option B would be tested in prototype early in 94/5, and in a live environment from March 95. Payment cards would then begin to roll out nation-wide in 96/7. The BA/POCL report assumed that it would take three years to complete national roll out.

4. This migration approach was recommended by the BA/POCL study group in order to reduce risk by adopting a phased approach, and to achieve early savings by building on initiatives already in place and by tackling high fraud areas first.

5. Progressing from Alert would familiarise post office staff with the counter technology while retaining a familiar method of payment, and would sustain the fraud savings already being made. Implementation of option A would maximise the fraud savings by introducing positive authorisation, and would also enable reconciliation.

There would then be a full network for the implementation of option B, which in turn produces significant admin. savings, the full extent of which are not available until option B is operational.

6. This strategy would also allow time for customers to adapt to the changing method of payment delivery, and time to co-ordinate communication, marketing and education efforts.

Further developments

7. Since the BA/POCL report was published, further research and discussion has indicated that there may be several reasons not to proceed with this migration approach. These are:

- issues with barcoding foils
- the use of private sector finance
- Treasury desire for early admin. savings
- the findings of the Girocheque working party.

Barcoding foils

8. BA Security have been testing the application of barcodes to order book foils, and have identified two potential areas of difficulty:

(1) readability. Although bar codes can be successfully printed on the foils, they cannot be deciphered by the existing readers, probably due to the overprint of the redesigned foils.

(2) print adhesive qualities. The requirement is that high speed printed bar codes should be as secure as impact-printed material; in order to achieve this, the bar codes on the covers of the

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Alert order books are currently laminated to seal the bar code. It may be technically difficult, and costly, to laminate bar codes on each order book foil.

Private Sector Finance

9. The recommended migration assumed a public sector financed project. With the involvement of the private sector in the BA/POCL programme now being considered, it is clear that there would be little value to the private sector in implementing option A. It would be more costly than a more straight to option B and it would not make best use of their expertise and existing technology.

Early Admin. Savings

10. Treasury are eager to maximise savings as early as possible. As the admin. savings available from implementing option B (£78m/year) are much greater than those available from A (£20m/year), migration to option B direct would make admin. savings available earlier.

Girocheque Report

11. The girocheque report is now complete, and does not recommend the implementation of option A for giros; rather, it recommends moving direct to option B for giros, as the admin. savings available are significant (£60m/year).

Revised Approach

12. The possibility of migrating direct to option B, plastic payment card, without the intermediary step of barcoding order book foils, has therefore been considered.

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13. This was not the approach recommended by the BA/POCL report, for two main reasons:

- length of time to implement the system
- the difficulty of handling foreign encashments.

Implementation time

14. The BA/POCL report indicated that implementation would take longer than was desirable, due to the need to build the underlying system, and that BA would be vulnerable to fraud in the meantime. One of the benefits of migrating via Alert and option A was that fraud savings were available early, while the card management and reconciliation software was being built.

15. Now that the involvement of the private sector is being seriously considered, it can be assumed that the bidding consortia would probably include financial organisations which would have software already available to carry out these functions. The lead-time while software is being developed is therefore substantially reduced. However, BA will still be vulnerable to fraud during the procurement period, unless the short-term tactical measures, such as Alert etc are implemented in the meantime.

Foreign encashments

16. Customers currently have the facility to encash their benefit payment at a post office which is not their nominated post office. This would cause some difficulty during roll out for customers who have been converted to card-based payments, but who wish to encash a payment at a non-automated post office.

17. This could be handled by a phone-call to the central

help desk, to validate the card and establish the payment due, or by the customer requesting a short-term order book to cover the period of absence from home. Both these solutions would increase cost. An alternative would be to make changes to the foreign encashment facility, but this would be a policy issue on which Ministers' views would be required.

18. Clearly, the faster that the supplier could complete national roll out, the shorter the period of time during which this would be a problem. Further work will be done on this issue and recommendations made in due course.

Approach to migration

19. Neither of the issues described above is insurmountable, and migration direct to payment cards is a feasible strategy. One approach is described below.

20. Carefully chosen clusters of post offices and BA offices would receive hardware and software in preparation for the conversion of customers in that area to plastic card payments rather than paper-based payments. It would be possible to target high fraud areas for early conversion.

21. Payment instructions generated by the benefit systems would no longer trigger the production of order books for customers in that area, but would be directed to the private sector supplier for electronic payment. This switch would happen over as short a period as possible, in order to minimise the time that a customer has both an order book and a plastic card, and to minimise the disruption to BA and ES offices.

22. A customer would receive a plastic card, with

details of how to use it, and from a given date, any order books still in their possession would no longer be valid, and they would receive all payments due on presentation of the card. BA would have the option to leave vulnerable customers (perhaps the very old) in receipt of paper-based payments until the end of roll out, as all benefits would be generating both paper-based and card-based payments throughout.

Speed of Rollout

23. The BA/POCL report assumed that it would take 12 months from approval to be ready to begin national rollout of Option A and that the completion of national roll out of equipment to all post office counters would take three years.

24. The time that it would take to achieve national roll out is governed by two factors:

- the time taken to procure the various elements of the programme from the private sector and to build a complete system which is operational robust and secure.
- the time taken to complete national roll out from that point onwards.

Procurement

25. It is currently estimated that it would take about 15 months for BA and POCL to procure services of this scale. The goods and services to be procured range from the network and associated software through to the PCs and peripherals for PO counters plus all aspects of the plastic card management and production as well as the overall integration and management of the entire service. During this period, the suppliers are to be shortlisted

and then to run a trial of their proposed solution.

26. This is slightly faster than the procurement timescale for the Government Data Network (which took about 18 months from advertisement to award). Although the procurement paths are dissimilar it also compares well with the procurement timetable for the National Lottery, which took a year. It was not deemed necessary to run trials of shortlisted suppliers systems for the National Lottery, as the proposed systems were package systems, and already in operation in other locations across the world. In the BA/POCL case, however, a trial would be important because of the mission-critical and innovative nature of the system.

27. During this time, BA would have a number of preparatory tasks to be performed:

- developing feeder systems to provide the data to the supplier
- developing a central payments database and associated software
- preparing the BA offices for conversion.

Implementation

28. The BA/POCL report assumed that it would take three years to complete national roll out. This was based on central government experience - Inland Revenue, Employment Service and DSS itself - of the rollout of large national networks. In the Republic of Ireland the An Post/Department of Social Welfare system is also being rolled out over three years. The UK Post Office considered that such a rollout was rather faster than they had previously been able to achieve.

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29. In considering whether the rollout could be accelerated there are a number of factors which drive the time taken for full implementation of this system:

- installation of hardware
- development of data feeder systems
- development of central database and associated software
- conversion of customers.

30. The speed of installation of hardware at post offices nationwide is dependent on the number of teams working on it and their management. It could be accelerated to a certain extent by adding extra teams and/or subcontracting more of the installation work. However experience suggests that in the first phase of the rollout there is a learning curve for the teams and vendor management arrangements have not yet bedded down; and at the end of the rollout there are a number of "difficult" sites remaining that need additional effort to bring on-stream. Thus, beyond a certain point, the timescale cannot be shortened simply by adding more resources.

31. However the timescale has been estimated on the basis of a new, dedicated, team for the rollout. If a supplier could use a team already in place and with established rollout and vendor management frameworks then the time to be fully mobilised could be significantly reduced and the rollout period reduced further. Major systems integrators may well be able to do this.

32. Moreover it should be possible to structure the contract to give suppliers a strong financial incentive to roll out quickly. Business benefits to the BA are

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determined by the extent of rollout and it would be possible to enable the supplier to "earn" more by delivering more of the BA business benefits quicker. Conversely it would be prudent to have provision for financial penalties, linked to the BA benefits foregone, if the supplier did not meet the required timescale. Such arrangements might breach the admin/programme divide and would need to be discussed with Treasury.

33. Press reports have suggested that the national lottery rollout will be significantly faster than this timescale. We have discussed this with members of the Camelot consortium and identified the following relevant differences:

(1) post offices with Camelot terminals will fall into two categories: 1500 "on-line" sites, with a permanent network line to the Camelot computer, capable of issuing tickets for the Saturday night draw; and 6000 "instant" sites with overnight dialup connection only, used only for the instant scratch-card part of the lottery. Implementation of BA/POCL requires permanent network connection.

(2) Camelot plan to have only 1000 "on line" post offices by November, mainly in urban areas well served with data communications. BA/POCL requires extensive networking into rural areas where telecommunications operator infrastructure is less developed.

(3) the Camelot terminals will be dedicated, single function terminals; the terminals for BA/POCL will need to support several applications from the start, and have the capacity to add more.

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(4) Camelot terminals will be allocated largely on a one-per-office basis, with the terminal probably at the back of the counter area rather than on the counter position itself. BA/POCL will require a terminal at each counter position.

34. Our provisional conclusion is that Camelot, by having a well planned implementation strategy ready to go on the day after award of contract, and by having strong commercial drivers for fast rollout, will set a cracking pace. But the effective rate of delivery into post offices is less than will be required for BA/POCL. In addition, although Camelot members will have some experience of putting equipment and networks into post offices the type and extent of this will not give them overwhelming commercial advantage; the proof of the pudding will come in competition.

35. The development of the data feeder systems must be in place for the trial in early 95, and so this would not be a constraint on national roll out.

36. The development of the central database and associated software could be a constraint, but could always be implemented in a phased fashion, provided that BA were content to accept the lack of reconciliation during roll out. For example, the initial feeder systems could be file-based, and independent of a central database, which could be implemented at a later date. This would, however, make reconciliation difficult.

37. The conversion of customers to plastic card is not constrained by the speed at which the cards can be produced, but by the speed with which the central

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database can be populated. If this is populated by using the current output files from the benefit systems, this need not be a major constraint. If however, it must be populated using specific conversion software to extract the data from the benefit systems, conversion may be constrained by the times at which the benefit systems are not in use (i.e. weekends).

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ANNEX B

Pilots

1. The report produced by the BA/POCL working group in February 1994 referred to a pilot of option A (bar-coded order books) followed by a trial of option B (payment by plastic card). However, for a number of reasons these assumptions have changed. It now seems unlikely that the migration path will include bar-coding order books; instead the system for making payment by plastic card is to be implemented directly.

2. For a number of reasons, a pilot will be required to test the BA/POCL system for making benefit payments at post office counters by plastic card. These include:

- the innovative nature of the system for making benefit payments
- the high public profile of the DSS
- the need to evaluate the ability of suppliers to support such a large-scale system - they will need to support the system in around 18,000 post office outlets
- the mission-critical nature of the system - it is imperative that the system is stable before national roll-out is started.

3. The latest thinking about the pilot takes into account the fact that private sector financing is being sought to fund the BA/POCL programme. The pilot could form part of the selection process for the private sector supplier.

Aims and Objectives

4. The aims of the pilot include:

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- to assess the public sector supplier's ability to provide a satisfactory system at a reasonable cost to the Benefits Agency
- to assess the technical robustness of the private sector supplier's system
- to determine the impact of payment by plastic card on Benefits Agency and post office operating procedures, and the resulting administration savings.

Overview

5. It is envisaged that the interested private sector suppliers will be reduced to a short-list of around three consortia. Each of these consortia will then run a pilot of their system for a period of about four months, during which time they will be evaluated. At the end of this time, a final selection will be made. The winning supplier will then roll-out its system nationally, in accordance with the agreed migration strategy. It is hoped that it will be possible for the winning consortium to take over the pilot systems implemented by the losing consortia and that an agreement to meet the capital costs of the trial would overcome any supplier reluctance to invest in competing.

Scale and Scope

6. The three pilots should all take place concurrently, in locations with similar characteristics. Each of the three private sector consortia would be allocated an area covering around 100 post offices, and with each geographical area falling within the jurisdiction of a single Benefits Agency District.

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7. The areas selected should all have:

- similar (high) levels of fraud
- similar customer profiles
- a broad spectrum of post offices, ranging from small rural offices to large crown offices.

Timescales

8. The pilots of the BA/POCL system for making payments by plastic card is planned to take place from April to August 1995. This is probably the earliest that this could be achieved, due to the lengthy procurement process which must be undertaken to short-list the private sector consortia.

Prerequisites

9. In preparation for the pilots, there is considerable work required by BA. Key tasks include:

- developing the data feeder systems required to provide payment instructions to the private sector consortia carrying out the pilots
- managing the procurement process and drawing up the short-list of consortia to participate in the pilots
- carrying out base-lining activities to assess the existing levels of fraud in each pilot area, and to gather information about the post offices and customers in that area who would participate in the pilot
- publicising the pilots, and communicating with staff and customers

- agreeing the details of the pilot, including funding arrangements, with the short-listed consortia
- developing evaluation criteria for the pilots.

Evaluation Criteria

10. The pilots will be evaluated according to a number of criteria. These could include:

- accuracy of payments made
- accuracy of information provided back to BA
- robustness of the system
- system response speed
- counter transaction time
- customer satisfaction
- relationship of the private sector supplier with BA and POCL.

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ANNEX C

Accounting Issues

Background

1. The Department is a major financial institution; it spends £4bn a year to deliver benefit expenditure amounting to £80bn. Although benefit expenditure is "demand led", the Department has a duty of care to its stakeholders in managing and accounting for these resources (a duty which is laid upon the Departmental Accounting Officer). Parliament via the Public Accounts Committee (PAC) scrutinizes the Department's stewardship of these funds on behalf of claimants, taxpayers and contributors.

2. The Appropriation Accounts are the Department's primary mechanism for reporting to Parliament on its stewardship. In order to properly present its accounts, the Department should comply with Government Accounting standards and requirements

3. In practice, the Department has always largely failed to comply with these requirements.

(1) It is unable to account on the basis of the gross amount of benefit payments it has issued (adjusted for abortive transactions such as cancellations.)

Instead it is largely forced to rely upon on the net encashment data supplied by its paying agents as the basis for its accounting information

(2) The actual expenditure also cannot be attributed precisely to the benefit to which it

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relates. A statistical apportionment exercise (with the known imprecisions this brings) has to be performed to assign values to the different types of benefit.

In 1980 the Department received a dispensation from the PAC to produce its accounts based on a "careful statistical apportionment" of the aggregated, net expenditure on benefits. However, this apportionment method (carried out by CYMS) has so many shortcomings that the NAO was consistently obliged to qualify accounts presented on that basis.

The main accounting deficiencies

4. In practical terms, the present order book system has serious deficiencies for ensuring the proper accounting of benefit expenditure.

(1) Issues are not matched with encashments which means that we rely on POCL to inform us of what they spent on our behalf. We have no means of verifying their figures and therefore it is not possible to distinguish between legitimate encashments and errors or fraud.

(2) No precise information is available on the expenditure on different benefits. This is because payments of different benefits to the same person are often amalgamated into a single payment. Subsequently on encashment, only the net value and grouping information can be provided by POCL. In addition to the annual accounts not being able to precisely state how much has been spent on each benefit, the information used for forecasting the

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global levels of benefit expenditure and assessing policy options is tainted by this inaccuracy.

(3) The present system also produces a long delay between benefits being issued to claimants and information becoming available for accounting purposes. Under the present system it takes up to 10 weeks for POCL to provide actual encashment data of what was cashed in a particular week. This information then has to be adjusted by statistical apportionment which further delays making the entries to the accounting system. The production of Appropriation Accounts is significantly delayed. The Department is therefore constantly struggling with not only imprecise accounting data, but data that is out of date.

The solution

5. The proposed BA/POCL solution will overcome these deficiencies.

(1) Detailed financial information on issues and encashments will allow us to establish precisely what is payable to POCL - and indeed, allow us to transfer the cost of incorrect encashments to the responsible party.

(2) Precise accounting, by individual benefit, will greatly improve our ability to

- forecast expenditure;
- provide accurate advice to Ministers;
- ensure the Appropriation Accounts accurately state the amount spent on each benefit;

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- produce the Appropriation Accounts in a timely manner in line with the timetable required of other government departments.

(3) The ability to monitor customer encashments patterns coupled with precise issues data will improve the efficiency of cash management. Currently this is managed to a tolerance of 1% and tangible savings could be achieved with only a 0.1% improvement.

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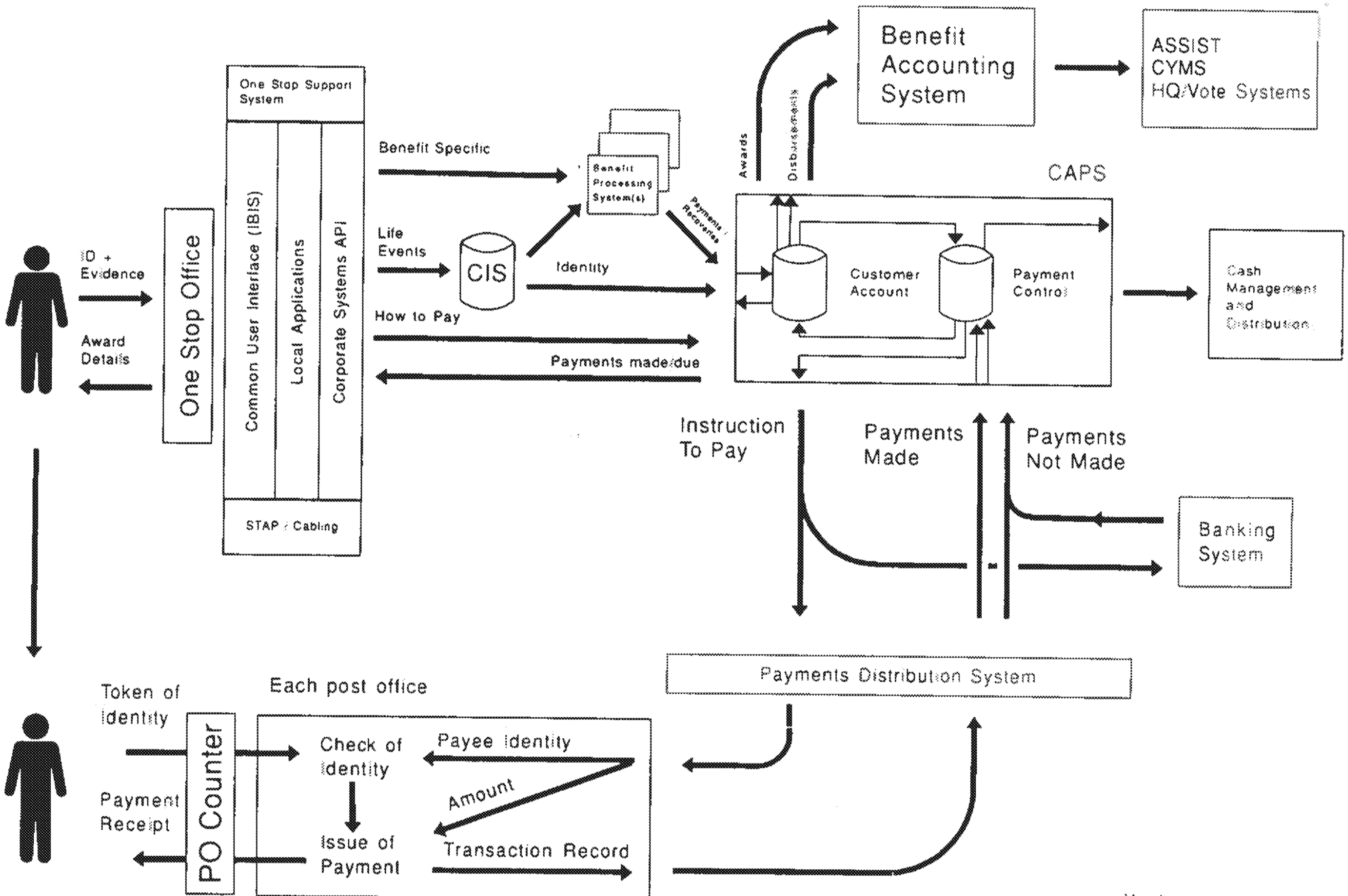
Benefit Processing and Payment Architecture



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